BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

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Application of Pacific Gas and Electric Company To Revise Its Electric Marginal Costs, Revenue Allocation, and Rate Design	Application 06-03-005 (Filed March 2, 2006)

REPLY COMMENTS OF THE CALIFORNIA MANUFACTURERS AND TECHNOLOGY ASSOCIATION

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October 19, 2007

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In accordance with the schedule prescribed in this matter, the California Manufacturers and Technology Association (CMTA) hereby submits its reply comments. CMTA will briefly respond to the comments filed by three parties: PG&E, SCE and TURN.

1. PG&E Comments. In its comments on item 7 under Rate Options, PG&E states that:

> There is a well-established consensus that the greatest demand response potential lies generally at the two "ends" of the electric customer spectrum as measured by size: among residential customers with significant air conditioning loads, and with the largest industrial and commercial customers with significant re-schedulable process loads.

CMTA disagrees with this contention in two respects. First, the claim that there is a "well-established consensus" is without foundation. CMTA represents a substantial portion of the industrial market and does not share the view that a consensus exists regarding the potential for demand response among the largest industrial customers.

Second, CMTA strongly disagrees with PG&E's assessment that the greatest potential for demand response includes "the largest industrial customers with significant re-schedulable process loads." In this regard, PG&E fails to explain what it considers to be "re-schedulable process loads". As explained in our opening comments, there are many large industrial customers with 24 x 7 operations which due to the nature of their operations are unable to shift production to other time periods. Moreover, even for customers which do not operate around the clock, attempts to shift production from the peak period to the off-peak for some customers will cause other cost increases which will outweigh any cost savings associated with energy consumption. PG&E's blanket assessment is far too broad and clearly mischaracterizes the situation of many large industrial customers. As CMTA emphasized in its initial comments, it is the customer who must determine what is both technically and economically feasible when it comes to shifting or rescheduling production.

PG&E also appears to ignore that fact that for many years most large industrial customers have operated under TOU rates and have made substantial investments in energy efficient equipment and processes. In many cases, what could be done to reschedule loads and to reduce costs has already been done.

With regard to questions concerning revenue recovery, PG&E advocates recovery of over- or under-collections resulting from customer response to dynamic pricing through the ERRA which would spread such costs/benefits among all customers. CMTA disagrees with this approach. As we indicated in our initial comments, the benefits or costs associated with dynamic pricing should remain within the customer class.

Otherwise, dynamic pricing would produce cost-shifting among customer classes, a result which is at odds with cost-causation principles.

In response to item 3 under the topic "Sources of Triggers and Prices for Dynamic Pricing", PG&E states:

> ….the MRTU is unlikely to produce market prices that can be used for immediate implementation of RTP tariffs. It is also important to recognize that RTP prices might be "linked" to MRTU prices, but the MRTU prices are quite unlikely to be directly usable in and of themselves – in part, because RTP tariffs will need to be designed to collect the same generation revenue requirement as do the less time-differentiated tariffs, so methods will need to be established for reconciling MRTU price information with each utility's overall procurement costs.

This statement highlights the difficulty, if not the impracticability, of translating RTP from a theoretical concept into an actual working program. If the MRTU/RTP prices have to be adjusted in some way to collect the generation revenue requirement, then whenever this true-up occurs, customers will know that the price signals that supposedly emanated from RTP were not the actual price signals. In order to minimize the distortion caused by such a true up, CMTA in its opening comments advocated use of a two-part rate whereby the "real-time" price would apply only to incremental usage above the customer's baseline usage.

2. <u>SCE Comments</u>. In its discussion of the objectives, SCE emphasizes the need for cost-effective DR programs. CMTA agrees with SCE on this point. In a similar vein, CMTA in its opening comments stressed that DR programs must allow the customers to make economically efficient decisions.

However, CMTA disagrees with the following SCE claim:[1]

> Taken as a whole, these recommendations identify generation capacity costs as the relevant element directly affected by DR and provide guidance regarding cost-effectiveness; i.e., what utilities should be willing to pay to achieve the value provided by DR or alternatively what the utilities should charge for a unit of generation capacity demanded by a customer at different times.

Generation capacity costs are not the relevant element directly affected by DR. Achieving DR through the use of dynamic pricing reflects a response to scarcity prices in the energy market. Dynamic pricing is not the equivalent of supply side resources (capacity) and is not a substitute for supply side programs such as capacity bidding or the current interruptible program.

Elsewhere in its comments, SCE claims that the key foundation of dynamic pricing is to promote the efficient use of generation capacity.[2] Again, CMTA submits that such a statement is off base. The purpose of dynamic pricing is to reflect on a more granular basis, the wholesale price of energy in retail rates. In this regard, it appears that SCE's statement is based more upon its support for centralized capacity markets than on objective analysis of dynamic pricing.

CMTA does agree with SCE's comments that the utility should make reasonable efforts to inform customers of the impact of the program.[3] SCE discusses two proposals: a one-year data collection effort to determine the impact of transitioning customers to dynamic rates and a one-year bill protection program. CMTA supports the use of either or both such measures as necessary implementation elements.

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[1] SCE Comments at 6.
[2] SCE Comments at 9.
[3] SCE Comments at 8.

In addressing the Components of Dynamic Pricing Tariffs, SCE recommends that:[4]

> "Customer, transmission and distribution costs should be recovered through the same rate structures as today. Existing structures recognize the costs drivers for various utility services, and allocate the costs accordingly. The discussion of cost recovery should focus primarily on generation costs.
>
> A rate design that "optimizes" the proportion of fixed to variable charges should be targeted towards long-term changes in customer behavior through the use of time variant rates, with a goal of flattening the load curve by encouraging permanent load shifting from on-peak periods to mid-and off-peak periods."

CMTA agrees with SCE. Indeed, the existing TOU rate structure for large customers is fully consistent with this recommendation. CMTA believes that rather than disrupting the current rate structure for large customers by moving to another form of dynamic pricing, the current TOU rate structure should be retained.

With regard to the Hedging issue, SCE discusses a Capacity Reservation Charge (CRC), whereby customers would pre-pay for a portion of generation capacity costs.[5] CMTA sees no reason why customers should be required to pre-pay a CRC. The CRC could be established at a fixed rate which customers would pay as a component of their monthly bill.

3. <u>TURN Comments</u>. In its introductory comments, TURN correctly observes that high Planning Reserve Margins (PRM) will suppress energy price volatility and drive spot prices towards the marginal operating costs of the least efficient unit:[6]

> Thus, as the Commission considers its long-term RA policy in Phase 2 of R. 05- 12-013 and its dynamic pricing policies in this proceeding, it is

[4] SCE Comments at 12-13.
[5] SCE Comments at 17.
[6] TURN Comments at 2.

> essential that the crucial policy tradeoffs be well understood and thoroughly considered.

TURN goes on to observe that an energy-based wholesale market structure with a well-developed scarcity pricing mechanism is highly compatible with a policy framework that relies on a dynamic pricing signal at the retail level. In contrast, a capacity-based system with high PRM requirements will suppress energy prices and eliminate much of the potential for demand to respond to changes in spot market energy prices. As a member of the Bilateral Trading Group, CMTA fully concurs with TURN's assessment.

TURN also asserts that the ability of customers to respond to the intended price signal is critical to the customer's acceptance of a rate design. Again, CMTA wholeheartedly agrees. As explained in our initial comments, it makes little sense to impose a rate design on large industrial customers if they are unable to shift load or if it would be uneconomic for them to do so. To do so also would be inconsistent with one of the fundamental objectives of dynamic pricing: allowing customers to make cost-effective decisions.

CMTA disagrees, however, with certain other points made in the TURN comments. TURN suggests that rate design can facilitate both energy efficiency and demand response by reducing reliance on demand charges and fixed customer charges. TURN asks whether demand charges eventually will become obsolete in a world with "ubiquitous interval metering."[7] In response, CMTA submits that the TURN approach is at odds with cost-causation principles. The reason there are demand and fixed charges is because there are fixed costs which do not vary based on time of use. This fundamental

[7] TURN Comments at 5-6.

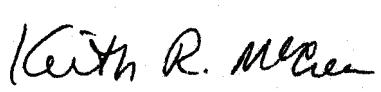
fact will not change just because more customers are provided with interval meters. Trying to collect a variety of sunk and fixed costs through energy charges would produce tremendous volatility and uncertainty.

In its discussion of rate options, TURN also suggests that LSEs could reduce their PRM obligation to a lower level (such as 7%) for customers on CPP and then share any savings with the customers in the form of a lower base rate. TURN believes that this approach could be applied to residential as well as other customer classes.[8] CMTA submits that such an approach would provide an unfair advantage to the utilities as compared to other LSEs serving DA and CCA customers. TURN recognizes that DA and CCA customers would not be subject to utility-sponsored CPP programs.[9] Thus, under the TURN proposal, only the utilities would have the benefit of a reduced PRM which would provide them with a competitive advantage vis a vis other LSEs. Such an approach would be both problematic and unfair and, for these reasons, does not merit further consideration.

[8] TURN Comments at 8-9.
[9] TURN Comments at 7.

In conclusion, CMTA respectfully requests that the Commission act in accordance with the recommendations contained in our opening and reply comments.

Respectfully submitted,



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CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of the foregoing "Reply Comments of the California Manufacturers & Technology Association" upon each person designated on the official service list compiled in this proceeding.

Dated at Washington, D.C. this 19th day of October, 2007.

Jodi Martz

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